

# COST and MANAGEMENT

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THE CANADIAN SOCIETY OF  
COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

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# • EDITORIAL •

## Textile Commission Report

The report of the Textile Commission recently released proved very interesting from several points of view, but, in the main, can be summed up briefly. In the first place, it seemed to say at once too much and, yet, not enough. Reference is repeatedly made to a protected industry, and veiled warnings are handed out that members of a protected industry should hand out more to those whom they employ, or else—.

True, this report dealt with the Textile Industry only, and while it may be true that those engaged in the manufacture of primary textile products have made fair and, in some cases, very good profits, the same does not apply, by any means, to those engaged in the knitting side of the industry. Few, if any, of these people have made money for a long time and yet, in the main, they pay fair wages and have good working conditions.

Moreover, workers have been employed probably more steadily in this industry than in other protected industries one could name. Another thing is that, at least in the knitting industry, prices are lower than in the U. S. for the same class of merchandise, which is much more than can be said for other protected industries easily named. It does seem to us that the Commission, if it found evidence of malpractice or fabulous profits, should have been much more specific. Certain phases of this report are apt to cause further dissension between capital and labour, and cause it where there is actually the least cause for it.

In connection with this report, we publish an article by Sir James Woods, which was issued prior to the Textile Commission report. Sir James has had considerable experience in the Textile Industry and knows whereof he speaks in this regard. His article gives facts not generally understood and appreciated, and, in our opinion, is well worth reading.

## The Government and Unemployment

The recent report by the Labour Minister of the Dominion Government, showing that the government would initiate large programs of public works in a further effort to reduce unemployment gives every taxpayer much food for thought. Few will argue that such a program is far better than indiscriminate handing out of relief, but it seems to us high time that the problem be tackled in a real scientific manner. Industry is passing through another slump, and while the so-called recession in the U. S. and large scale buying in the past, has much to do with this, there is a growing feeling in business that no one seems to know what is going to happen

## AT HEADQUARTERS

next. The household appliance industry, in most cases, is almost at a standstill, due to the fact that industrialists fear the dumping of such appliances from the U. S. at a price far below that which Canadian manufacturers can sell for.

We do know that certain Canadian manufacturers do desire far too much protection, but protection should be on a basis which will allow reasonable returns plus a fair price to the buyer, and should certainly not be cut down to a point where it is impossible for Canadian manufacturers to compete. Moreover, it seems also time for the Dominion Government to get together with industry immediately in an effort to institute Unemployment Insurance without further delay.

Democratic governments are usually slow to make up their minds, but this matter has been kicked around just long enough.

By all means let us have a program of necessary public works, but do not let us have such a program merely for the sake of reducing unemployment by instituting something which is not at all necessary.

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## At Headquarters

At the end of our present month, the Society will complete what has undoubtedly been one of the best years in its history. Not only have over one hundred new members been secured, but there is much more life and vitality evident than for many years past.

Chapter meetings generally have shown better attendances, and the calibre of meetings has at least been up to that of former years and, in many cases, better.

Three new Chapters have been organized, and while it takes time to thoroughly organize any new Chapter, the progress in this regard has been entirely satisfactory, and next year these three new branches will show a decided increase in membership.

Indeed many prospective members have, of course, put off applications until the advent of the next financial year which, in itself, will mean many new members early in our new year.

Moreover, if present plans materialize, and we think they will, there is every chance that the entire western provinces will be organized this year, so that next year holds promise of even greater advancement than the one just drawing to a close.

On March 24th, we had the pleasure of attending a joint meeting with the Hamilton and Niagara Chapters, and the Buffalo Chapter of the N. A. C. A., at Buffalo, and it was one of the best we ever attended. The speaker was Mr. F. V. Gardner of Milwaukee, who spoke on "Management by Exception," and he made one feel very humble from an accounting point of view. In addition to the Niagara and Hamilton members, there were three present from the Kitchener Chapter, and when three members motor one hundred and fifteen miles to a meeting, and the same distance back again on the same evening, we call it real enthusiasm.

## COST AND MANAGEMENT

The Canadian members received a grand reception. There were cards on each table welcoming members of the Canadian Society of Cost Accountants; there were Canadian flags waving, and the U. S. members actually stood and sang "God Save the King," which we interpreted as a grand gesture. Bill Smitton and Walter Furneaux, Chairman and Vice-Chairman of the Hamilton Chapter, were introduced, and yours truly spoke briefly. We are certain that this meeting did much more than merely give the members an opportunity to hear a grand speaker, it mixed members of the Hamilton, Niagara and Kitchener Chapters, and made them feel that they belonged to something worth while. That is a real advantage of these joint meetings.

The N. A. C. A. propose to visit Hamilton next fall, and, in this connection, the Kitchener and Niagara members will also come along. Toronto members want to do the same, and if this can be accomplished it will mean one of the largest meetings of its kind ever held in Hamilton, and should do much to bring our Society to the fore. But, more than that, it gives each member an opportunity to meet members of other Chapters to make and cement friendships which will last, and to hear the other fellow's point of view.

As for this writer, since September last, it has been our privilege and pleasure to serve you as Secretary-Manager. It has been hard work, but it has been a grand experience, and the very numerous visits to the various Chapters has resulted, among other things, in the making of friendships which time cannot erase. The co-operation received has been wonderful, so much so that this co-operation has made a difficult job easier than would otherwise have been the case.

Much good has been accomplished, but we are not yet satisfied, so we say: goodbye 1937-38. Let's go 1938-39.

Before we close, there is just one matter we would like to dwell on, and that is the fact that several members have failed so far to pay dues for the current year. Our by-laws insist that members not paid up by April 30th must be dropped. Naturally, we do not desire this to happen in even one single case, and so we ask that these dues be paid as quickly as possible. This column has been written along more personal lines than is usually the case, but we feel that, at the close of a successful year, we want to say thanks for your help and co-operation, and don't fail to keep it up in the coming year.

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## Literature Received

### Presentation and Use of Cost Control.

N. A. C. A. March 15th.

By M. A. Lause and F. A. Boettger. An instructive article which emphasizes the methods of reporting and the uses made to cost data, and which it would be well for all Cost Accountants to read.

## LITERATURE RECEIVED

### **Estimating As A Science.**

N. A. C. A. March 15th.

By J. C. White, and presents a method of estimating factory costs to be used as a basis for quoting prices on products sold in a competitive market.

### **Burden Application.**

Journal of Accountancy. March.

A most instructive article on a subject of interest to all Cost Accountants. By M. B. Cogburn, a professor of Accounting at the University of Florida.

### **Practical Costing in Industry.**

The Cost Accountant. March.

By S. J. Wheeler, F.C.W.A. A very valuable contribution to Cost literature.

### **Electricity Supply Costing.**

The Cost Accountant. March.

By C. Baron, F.C.W.A. Pays particular reference to distribution costs.

### **Short Cuts in Stock Records.**

Office Management. March.

A very informative article by R. B. Taylor, C.A., who has to his credit many articles of a similar nature.

### **Planning and Controlling Salesmen's Costs.**

N. A. C. A. April 1.

Shows how the experience and viewpoint of the accountant have proved of value in other fields than that of factory accounting, and dwells on a subject on which too little has been written in the past.

### **Practice in Applying Overhead and Calculating Normal Capacity.**

N. A. C. A. April 1.

Compiled by the Research and Technical Service Dept. of the N. A. C. A., and is an exceedingly valuable contribution on a subject of real controversy, and in which accountants and cost accounts are intensely interested.

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## Chapter Notes

### **Montreal.**

Mr. Elmer J. Koch, Secretary, United Typothetae of America Inc., was the guest speaker of the Montreal Chapter on March 11th, and he was rewarded by a good attendance of members, and rapt attention from those present. Up to this time it has not been possible to obtain a copy of Mr. Koch's address for publication, but it is hoped that this can be secured for publication in the next issue.

## COST AND MANAGEMENT

On March 25th Mr. D. Labbe, L.S.C., Ecole des Hautes Etudes Commerciales de Montreal, addressed the members on the subject of "Merchandising Costs," and his talk was much appreciated by those present.

It had been hoped to hold the annual farce of the Montreal Chapter, "Bring Down the National Budget," but at the last moment this had to be postponed and, instead, Mr. C. N. Knowles addressed the members on "Some Aspects of Budgetary Control," always a popular subject, and a hearty vote of thanks is due Mr. Knowles for his kindness in addressing the members on such short notice.

"Bringing Down the National Budget" will be staged on Friday, April 22nd, and it is to be hoped that a large body of members will be present on this occasion.

### Toronto.

On Wednesday, March 30, members of the Toronto Chapter staged a very successful plant visit, when over sixty members turned out to a most enjoyable visit to the up-to-date plant of the Canada Wire and Cable Co., Ltd., at Leaside. Those who attended were loud in their praises of the generosity of the company in providing excellent guides, who took the members on tour which lasted well over two hours, and during which time much valuable knowledge was assimilated. The number dropped to forty by the time the members assembled for dinner at the cafeteria of Staunton's Limited, through the kindness of Mr. C. Faux, a popular Toronto member. The guests were welcomed by Mr. Staunton, who expressed the wish that the members would next season visit the Staunton plant. Following the dinner, R. Dawson, Secretary-Manager, spoke briefly on the work accomplished during the year, and plans were announced for the final meeting late in April, when the members and their wives and friends will gather at the Club Esquire for a jolly time.

### Hamilton.

On March 24th, twenty-four members of the Hamilton Chapter, supplemented by eighteen from the Niagara Chapter, and three from Kitchener, attended a joint meeting with the N. A. C. A. at Buffalo to hear Mr. F. V. Gardner of Milwaukee, Wisconsin, speak on "Management By Exception." To say that this meeting was enjoyed is putting it mildly, and some of the Hamilton members, if report be true, did not arrive home until the wee sma' hours.

Reference is made in another column in regard to this meeting, but it is safe to say that it was one of the most enjoyable on record, and plans are already afoot to stage a return visit by the Buffalo Chapter next fall.

On April 6th, the Hamilton members turned out en masse to hear Mr. F. M. Morton, Vice-President of the International Harvester Co. speak on "Industrial Relations." Mr. Morton's address is published elsewhere in this issue, and suffice to say that it was a grand meeting, with over sixty present, and everyone enjoyed it thoroughly.

The new officers and directors of the Chapter were announced at this meeting and are as follows: Chairman, W. H. Furneaux; Vice-Chairman, A. J. Ballentyne; Secretary-Treasurer, W. L. McMahon; Directors—H. P.

## CHAPTER NOTES

Wright, K. M. Horton, O. H. Menzel, C. H. Wynn, F. Landeg and W. J. Epplett. Representatives on Dominion Board—A. G. Howey and W. G. Smitton.

### Kitchener.

On March 17th, Mr. A. Sankoff of the Canadian Westinghouse Co. Ltd., addressed members of the Kitchener Chapter on the subject of "Wage Incentives and Cost Control." There was a good attendance and the talk was very much appreciated. Indeed, the Kitchener Chapter lived up to its reputation for questions, for the question period was a lengthy one.

The next meeting of the Chapter has been set for April 19th, when Mr. F. H. Vercoe of the Steel Co. of Canada's Swansea Works will speak on "Engineers' Approach to Cost Problems." Mr. Vercoe is a fine speaker and it is hoped that his meeting will prove one of the best of the season to date.

### London.

On March 22nd, Mr. K. M. Horton of the Cosmos Imperial Mills, Hamilton, addressed members of the Chapter on "Textile Costs," and the talk was very much appreciated, with numerous questions at the close. There was a good attendance, but it is hoped that a much larger attendance will be present for the next meeting, on April 12th, when the speaker will be Mr. A. Sankoff (Canadian Westinghouse Co. Ltd.), who will speak on "Wage Incentives and Cost Control." Mr. Sankoff is a practical young man, a good speaker, and has a thorough knowledge of his subject, and it is hoped that his address will be published in the next issue.

### Niagara Falls.

Those members who attended the joint meeting in Buffalo will long remember both the talk and the reception accorded the Canadian members. The talk itself was a treat, and it is safe to say that this meeting did much to cement the bonds of friendship among members of the Niagara Falls, Kitchener and Hamilton Chapters.

The next meeting of the Chapter will be held at Welland, on April 20th, when the speaker will be Mr. M. I. Long, C.A., of Hamilton, whose subject will be "Depreciation and Wasting Assets." Mr. Long is a Vice-President of the Society and a good speaker, and it is expected that the largest attendance to date will greet him on this occasion.

## SOCIETY EXAMINATIONS

Society examinations will be held this year in Montreal, Toronto and Vancouver. Advanced Cost Accounting exams will be conducted in Montreal only on April 25th, while First Year Cost Accounting examinations will be held in the three centres mentioned on May 16th. Those who intend to sit for any of these examinations and who have not yet made formal applications are requested to do so immediately.

## FORUM SECTION

To The Editor,

Dear Sir,—

I read with interest the question from Company "N" in the March issue of "Cost and Management," regarding parts previously purchased in a finished state and which are now received in a rough state, with a consequent lower cost than the standard previously set up.

I would say that the safe way to treat this matter would be to credit material variance with the difference in the purchase price and to charge labour variance with the higher cost of manufacture. Allocating the differences at the end of each period on the basis of the number of parts manufactured or worked may be easier, but quite frequently such a practice leads to trouble, especially when, in a rush, the matter is forgotten.

In any event, in the method previously outlined, both variances are charged or credited to their correct sphere of operations. The correct way, of course, would be to change standards if the parts continue to arrive in a rough or semi-finished state, and if the parts are numerus and varied.

Yours, truly,

COMPANY "O."

# Industrial Relations

By

FRANK M. MORTON,

Vice-President, International Harvester Company.

Address Before Hamilton Chapter, April 6th, 1938

Mr. Chairman: May I first of all thank you for your very kind introduction, and to say that I was very happy to accept the invitation of your secretary to speak before you? I am happy, too, to find such a fine attendance and, from the name of your Society, I would imagine that you are executives who desire to hear something of the very broad subject of Industrial Relations.

Such a subject has many phases, and all of them are important. I propose to deal with the Harvester Industrial Council Plan, which I will call "Carrying the Worker with Management in its Policies." Now, this phase is of tremendous importance, it is so basic and so fundamental. It is one of the foundation stones on which our employee-management relationship is built and it is impossible to separate it from the plan itself. Indeed, it is definitely a part of it.

The purpose, or objective of the Harvester Industrial Council Plan is the same to-day as when it was started—to promote a better employee-employer relationship and all that goes with it. Its operation has been beneficial both the employee and to the management, and during those eighteen years our mutual problems have been settled around the council table without a single strike and without loss of time or earnings. During that long period many questions in connection with wages, hours, working conditions, etc., have had to be solved, but the elected employee representatives and the appointed management representatives, who comprise the Council, have always been able to reach an understanding sitting together around the council table. Industrial strife has been entirely avoided.

Carrying the worker with management in its policies develops mutual understandings and an appreciation of the problems and the limitations of the business. Misunderstandings can often be the cause of dissatisfaction and disputes.

First, of course, mutual confidence and respect must be established. That takes time and patience, but is well worth all it takes. There is no room in such a set-up for prejudices on either side. They don't go along with the co-operative spirit of the plan.

Industrial relations are human relations, and human nature is such that both the employee and management must be convinced of one another's sincerity of purpose. Both must be fair.

What is the Harvester Industrial Council Plan? It is a plan of employee representation based on certain sound principles. These have been so well stated by Mr. Fowler McCormick, vice-president of the Harvester Company, and grandson of the inventor of the reaper, that I am going to quote his exact words.

"Four things," Mr. McCormick points out, "are essential to the success of any plan of employee representation.

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"First—Absolutely free choice by employees of representatives in whom they have confidence.

"Second—Full and intelligent presentation of all matters of concern.

"Third—Prompt and serious consideration of these questions.

"Fourth—Sincerity and fairness on the part of both management and employee representatives in the endeavour to reach a constructive solution."

Quoting Mr. McCormick further, "These are the fundamentals of our system, and must be of any system."

The Harvester Industrial Council Plan came into existence in Canada in 1919, as the result of a proposal of collective bargaining by the company and its subsequent acceptance and adoption by secret ballot of employees.

This plan was one of the pioneer and volunteer efforts to encourage full and free discussion between freely chosen representatives of employees and management as a means of settling matters of mutual concern. Over the years this has developed a feeling of mutual confidence and respect between the company and its employees, each recognizing the problems of the other and joining in efforts to arrive at fair and reasonable solutions.

It is interesting to know that, in 1914, a Canadian, well known for his humanitarian interests, undertook a lengthy study of the wide field of industrial relations. His findings on industrial and social policies are embodied in his book, published in 1918, "Industry and Humanity," which is a very comprehensive survey of the principles underlying the measures that progressive management has now adopted.

The Harvester Company in formulating its Works Council Plan sought and abundantly received the advice of this gentleman, who has since attained high rank in Canadian affairs. I refer to the Prime Minister of Canada, The Right Honourable William Lyon Mackenzie King.

I do not want to take the time that would be required to describe in detail the Harvester plan of employee representation, but certain further brief references would probably be of interest to you. Employees and management have equal representation in the consideration of all questions of policy relating to working conditions, health, safety, hours of work, wages, recreation, education and other similar matters of mutual interest.

The Works Council is composed of representatives of the employees and representatives of the management. The employee representatives are nominated and elected by the employees by a secret ballot. The management representatives are appointed by the management and cannot exceed the employee representatives in number. Both have equal voice and voting power. Through the Council any employee, or group of employees, or the management may at any time present suggestions, requests or complaints

At the Harvester Works in Hamilton, where normally the number of with the certainty of a full and fair hearing.

### Composition of Council.

employees would run between 2,500 and 3,000, the Works Council is composed of eight elected employee representatives and eight appointed

## INDUSTRIAL RELATIONS

management representatives. The individual occupations of the present employee representatives are—pattern vault attendant in grey iron foundry, tumbling mill operator in forge shop, packer in packing department, patternmaker, saw operator, drill operator, bench hand, and lathe operator.

In addition to the regular meetings of the Works Council, I would like to point out that the plan offers employees opportunities to have their own independent meetings and discuss problems among themselves before presenting them to management. The employee representatives have their own chairman. It is interesting to note that the elected employee representatives are usually older men, capable, and with longer service records, and I assure you they can be aggressive in their demands. The individual length of service with the company of the eight elected representatives now serving on the Hamilton Works Council is from 10 to 30 years. The 30-year man happens to be the chairman of the employee group, having been elected to that office by the other employee representatives.

Employee representatives hold office for one year. Foremen, assistant foremen and other salaried employees are not eligible for nomination as employee representatives. Regular monthly meetings are held and special meetings may be called on three days' written notice. Monthly meetings of the Council do not mean that questions or complaints are saved up each month for discussion at the next meeting. In fact, it isn't unusual to hold a meeting which is entirely free from complaints by the employee representatives.

### **Prompt Action Desirable.**

Many of the questions, or suggestions, which come up are dealt with during the day-to-day contacts between employee representatives and their foremen, department heads or superintendent. Company policy is to do something about these things at the time when something should be done about them—that is, when they come up.

Procrastination in dealing with matters brought to the attention of management by employees is not conducive to the building up of confidence, but, on the other hand, makes for discontent. "Do something about it," is a good slogan for management to follow, and every time you do "do something about it" you add one more link in the chain of confidence and mutual trust that exists between employees and management. Printed minutes of Works Council meetings are distributed to all employees.

Every representative serving on the Works Council is guaranteed independence of action and there is no discrimination under this plan against any employee because of race, sex, political or religious affiliations, or membership in any labour or other organization.

Of course, no system of employee representation will work, nor can a proper labour-management relationship be established, until a company has reasonable and correct labour policies in regard to hours of work, rates of pay, working conditions, pay for overtime, and so on.

And, after these policies are adopted by the general management, the next important step is to ensure the correct interpretation and application

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of these policies by plant management, foremen, assistant foremen, etc. Here is where good foremanship comes in. It is only common sense that a foreman cannot hope to interpret properly the management policies to the workers in his department unless he himself thoroughly understands them. It is the practice of the Harvester Company to hold regular foremen's meetings during which the various policies of the company are discussed at length, in order to ensure a thorough understanding of such policies by the foremen group. There can be no question as to the value of these meetings.

In the interpretation and application of the company's policies to employees, a foreman should always bear in mind that, to employees he is the company. What he says and does is naturally assumed to be company policy. He is the day-to-day contact between employee and management, and he should be capable of doing this policy job in the way that management intends it should be done. Otherwise, misunderstandings may result and much harm may follow perfectly good management intentions.

### Employee Representatives Helpful.

Serving on committees of the Works Council, employee representatives have been very helpful in dealing with such matters as safety, production, quality of product, etc. Every employee representative is a safety inspector in his own division. Production matters that might be causing trouble are discussed in committee and samples of defective work are brought before the production committee. Complaints from the field are also reviewed. Suitable awards are made to employees for worthwhile suggestions.

While I have endeavoured thus far to give you a general idea of our employee-management relations, probably you would like to have me mention a few specific instances of how we try to keep the employees better informed about the company's business, or putting it another way, how we endeavour to "Carry the Worker with Management in its Policies."

Let me say first that if the employee is carried along with management in its policies and from past experience knows that his interests are considered in the formulating of such policies, that through his employee representative on the Council he has played an important part in the developing and shaping of these policies, it is only natural that he should take a keener interest in his own job and in the general affairs of the company. I believe that the employee should have a clear understanding of his employer's business because he is part and parcel of that business. Why shouldn't he be given the facts about matters that have a bearing on his personal welfare?

As a specific instance of keeping employees informed, suppose we deal first with the annual financial report of the company as furnished to the stockholders. Many Harvester employees are Harvester stockholders. I am not in position to say how many industrial firms, for instance, are willing to take the time, or think it is worth while to have the comptroller of the company, or a member of his staff, visit each of the company's plants and explain each item in their annual financial statement to its employees, but through the Works Council this has been Harvester practice for years.

Employee representatives and their constituents know, because they have had it explained to them, that, for instance, the item of surplus—a

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term frequently misunderstood—shown in our balance sheet does not represent a pile of cash stored away somewhere, but instead represents a portion of the company's net earnings which has been retained to meet the going needs of the business.

All employees have had explained to them also that this policy, pursued over a period of years, has made it possible, as required, to expand plants, purchase machinery and equipment and provide the necessary working capital for the increase in inventories, receivables, etc., made necessary by the increased volume of business.

It is further explained to employees that had the company followed the less conservative practice of paying out all of its earnings in dividends it would not have been possible to extend the business except through long-term borrowing from outside sources. I feel sure that the employees look forward each year to the meeting at which the company's financial report is explained item by item.

In his 1936 annual report to employees, of which each employee received a copy, Mr. S. G. McAllister, president of the Harvester Company, also included a condensed exhibit of the company's income account and balance sheet with explanations of the different items. This followed the detailed explanation previously given by a member of the comptroller's staff. A copy of the company's annual report complete in all details as furnished to stockholders is also available for employees if they desire the report in such detail.

### Annual Report to Employees.

I don't know of any better example I can give you of the Harvester Company's desire to keep its employees informed about the business, and the policy it pursues in that direction, than to give you an insight of Mr. McAllister's 1936 annual report to employees, to which I have just referred.

I am not going to take the time to read it in its entirety, but I would like to read a part of it, quote from certain paragraphs and then comment on others. Understand, this is a report from the president of the Harvester Company to each one of its employees. Perhaps it is a little unusual for a president of a world-wide organization to make such a report to its employees, but this is Harvester policy.

I want to read the first page. It will take only a coupe of minutes. I think it will be interesting to this meeting.

### "TO THE EMPLOYEES:

"Many of you are company stockholders, but whether you are stockholders or not, I am sure you are interested in the 1936 annual report to stockholders covering last year's operations. It is the best report we have been able to make in several years. Not only does it show a good increase of sales volume throughout the world, but it also shows increased compensation to employees and increased returns to stockholders; and, best of all, perhaps, it ventures to predict another good year for 1937.

"There is a small paragraph in the Annual Report that I want to mention specifically, the paragraph in which the officers and directors express their appreciation of the part which the Harvester organization all

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around the world has played in making possible the fine results which the report sets forth.

"This appreciation is not just a courteous gesture. Its words are not empty or idle. They are full of meaning, and they are spoken from the hearts of the men who utter who. They are simply another recognition of a great fundamental truth. Briefly, this truth is that the foremost and indispensable asset of any institution comparable with ours is something so intangible that you can't write it into a balance sheet, put it into a graph or chart, or state it in a report.

"This asset is the collective and individual spirit of the men and women who make up the organization, that spirit which arises when the members of an organization have confidence in each other and in their leaders, and combine their best efforts to make the business a success for the common good of all concerned.

### Harvester Spirit Functions.

"I have seen how the Harvester spirit functions under most difficult conditions at home and abroad. I have seen how our people have played the game—and have won the game—in circumstances and under conditions that would have made less loyal and courageous men look for some other kind of a job. I have seen them undertake and carry out the rehabilitation of manufacturing, selling, and collection organizations that had been literally shot to pieces by the world's worst war, and I have seen, too, how our people have met the vast and various problems enforced upon us at home and abroad by the disastrous economic depression from which we are now recovering.

"As I remember these experiences in foreign countries and as I think of what we have had to do here in our own country since I came back to it, let me tell you—and tell you from the very bottom of my heart—how exceedingly proud I am to be a Harvester man, not a Harvester officer, but just a Harvester man.

"The essence and spirit of this message to Harvester employees is this: You may have ample capital, you may have the finest workshops, and yet if these things are not backed up by a loyal and energetic organization you cannot hope that your institution will endure and prosper. And even that is not enough.

"Not only must stockholders, employees, and management loyally co-operate to achieve success, but the basis of that success must be service to the public, our customers, the furnishing of needed machines of good quality at reasonable prices. A business to endure must prosper, not at the expense of the public, but by service to the public. The salaries and wages of the employees and the return on the investment of the stockholders all depend on rendering efficient service.

"Fair treatment of employees and loyal co-operations to serve our customers—that is the spirit of the Harvester organization, and that is the basis of its success."

Mr. McAllister used to work in our production department at the Hamilton works. As a boy out of high school he was first employed in the office at McCormick Works, Chicago, in 1897.

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### Description of Organization.

Under the title of "What is the Harvester Organization?" he explains it to the employees as a partnership of 30,000 stockholders and 61,000 employees, the stockholders providing the buildings, machines and working capital to carry on the business, and the officers to guide it, the 61,000 employees, with the aid of the facilities and management so provided, carrying on the work of producing and selling the products.

"And what are the Purposes of this Organization?" is the title of his next paragraph. He goes on to say to the employees that it is to create income for the partners by performing a service to the buying public, to furnish good machines at attractive prices, and adds that if this service is successfully and efficiently performed, then the products can be sold on a basis which will reward the partners with employment, wages and dividends.

"And What is the Income of the Harvester Organization?" is the title of his next paragraph. Considered as a partnership, he explains to the employees that it is the annual amount which can be taken out of the business by the partners after paying all bills for materials, fuel, light, heat, power, taxes and repairs, and making reasonable provision for continuing the business in future years on an efficient and profitable basis, further explaining that during the last year the income so taken out of the business as a whole and divided was as follows:

Received by employees in wages, salaries and extra compensation, about	.....	\$94,000,000
Received by stockholders in dividends, and by the officers appointed by the stockholders to manage the business, about	.....	\$17,000,000

## EMPLOYERS

▼

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## INDUSTRIAL RELATIONS

He points out that the greater part of the income goes to the employee partners, not to the stockholders. Further, that the capital invested in facilities, inventories, etc., for producing the income amounts to \$6,500 per employee. Stating it another way, he says that each employee is furnished with a tool kit costing \$6,500 to enable him to produce more and thereby increase his income.

### Leave Some Earnings in Business.

The Harvester policy of leaving in good years a portion of the earnings in the business which has worked for the benefit of stockholders, employees and customers alike is then dealt with. This policy has enabled the company to meet and survive losses, to improve and expand its operations and to keep itself an efficient company to serve the public well, to

Mr. McAllister takes up next "Changes in the Nature of the Business," furnish more stable employment at better wages to more employees, and generally to make it the kind of a company that men like to work for. using interesting figures to illustrate some of the new conditions which can confront a business in less than a generation. The old line of harvesting machines, for instance, consisting principally of binders, reapers, mowers, and rakes, represented a little over 61 per cent. of the company's sales in 1910, and in 1936 the figures dropped to 27 per cent. for all farm implements and with a greatly increased variety.

Tractors and motor trucks have come rapidly to the front during the same period, tractors increasing from approximately 8½ per cent. in 1910 to about 32 per cent. in 1936, and motor trucks from about 3 per cent. to a little over 31 per cent. of the total sales.

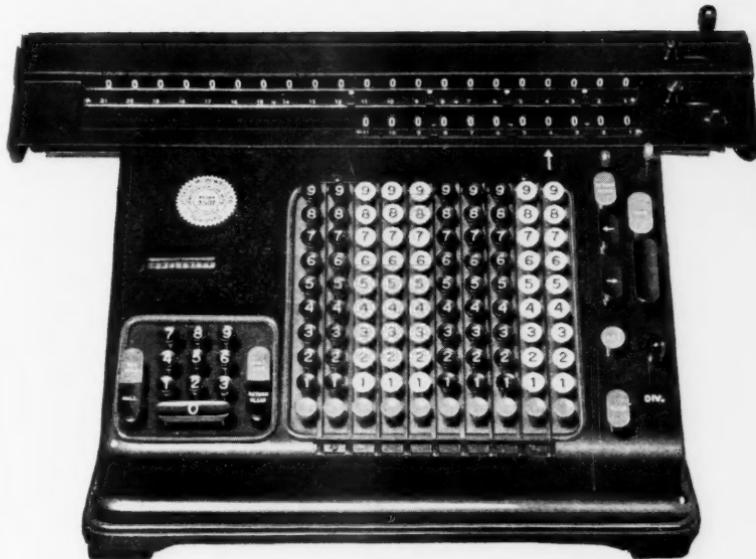
Next, his report to all employees deals with the general business of the company in 1936. The total sales, employment provided, amount of wages paid, net profit made, dividends paid, etc., are followed by reference to capital additions during 1936, as well as engineering developments.

Then Mr. McAllister takes up the broad subject of employee relation. I am still referring to his annual report to employees. All Harvester men know that this is a subject in which he is intensely interested. He deals first with the matter of safety, explaining how the company has maintained an active campaign to minimize the possibility of employees becoming injured while at work. I wish I had time to tell you the story of safety, for instance, as it is practised at our Hamilton Works, how much help we get from the employees, how many eyes have been saved because goggles must be worn by everybody in the plant, and so on.

It might be interesting to take just a minute to tell you a little personal experience I had about two weeks ago when I was showing an out-of-town visitor through the plant. The joke is on me, so I don't suppose I should be telling it, but it is a good example of the great interest taken in the company's policy of safety by the employees.

There is a rule in our Hamilton Works that everybody in the plant must wear goggles, and that means everybody. Management and employees alike know that the wearing of goggles saves eyes. There has been ample evidence to that effect in the collection of smashed goggles which we have accumulated.

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## INDUSTRIAL RELATIONS

I keep a pair of goggles in my desk drawer which I put on when I go out into the shop. We were in a little bit of a hurry on this occasion, and in the course of our conversation on other subjects, we started out into the plant without our goggles. We had been in the plant the day before and I had furnished a pair of goggles to our visitor and had worn my own, but I must admit that I completely overlooked them on this second day trip.

We walked into the machine shop and had gone about fifteen feet and were passing a lathe which was being operated by Frank Watkinson, who has been in our service for eighteen years. He happens to be an employee representative. Also, unfortunately, he happens to be a man who lost an eye in our plant several years ago when he was driving a chuck on a spindle and a piece of steel flew and entered his eye. I spoke to him as we passed by and he put his hand up to his head. Evidently realizing that I did not get what he meant, he then pointed directly to his own goggles, and I suddenly realized that here I was, out in the plant without my goggles and breaking one of our most important safety rules. I told our visitor we would have to go back to the office and get our goggles. We returned to the machine shop wearing goggles and, as you can imagine, we were greeted with a sly little smile from the several workmen in that corner of the room, and you may be sure that I will not get caught again on this point. I haven't heard the last of it yet.

Following safety, reference is then made by Mr. McAllister to the medical service that is available at the plants, and next to the Employees' Benefit Association, founded by the company in 1908, under which plan benefits amounting to nearly \$14,500,000 have been paid to disabled members and beneficiaries for sickness, accident and death not compensated under workmen's compensation laws. This figure is for the entire Harvester Company.

### A Large Pension Fund.

Pensions come next. He reminds the employees that since 1908 pensions have been granted to long-service employees, the entire cost of which has been borne by the company. The Pension Fund aggregates more than \$30,000,000 invested in sound securities. Mr. McAllister goes on to say a total of \$15,894,000 had been paid in pensions to retired employees throughout the world up to and including 1936.

"Collective Bargaining" with employees as to wages, hours and working conditions, Mr. McAllister explains, has been in effect for many years. The plan of employee representation offered to employees in March, 1919, was the logical outgrowth of the long and interesting experience in co-operative effort by the company and the employees in accident-prevention activities and in the Employees' Benefit Association. Experience has proved that where there is mutual confidence and respect, employees and management can get together and solve their problems on the basis of industrial co-operation.

Under the heading of "Employment and Wages," Mr. McAllister explains to the employees how, as a result of careful study and planning many years ago, manufacturing schedules were adopted which permitted

## COST AND MANAGEMENT

more regular employment and better plant operations throughout the year. He also refers to the company's extra compensation plan, under which employees who worked continuously during 1936 and had two, or more, years of service, received the equivalent of two weeks' wages. One week's wages was paid to those having one year's service.

It has long been company policy to maintain a system of training apprentices for mechanical and skilled trades. This program, offered to young men qualified for such training, gives them an opportunity to qualify for work of higher responsibility in the Harvester organization. Throughout the company's offices, sales branches, and factories, capable employees are given opportunities for self-development in work which may fit them for promotion. This practice is in keeping with the traditional Harvester policy of making promotions from within the ranks—a policy that offers an incentive to ambitious employees and invites them to make their careers with the Harvester Company.

Perhaps not very briefly, but as briefly as I could, I have given you the substance of our president's 1936 report to all employees. Aside from anything else I have said, I trust it alone will convince you that the policy of "Carrying the Worker with Management in its Policies" is truly a Harvester policy.

I have tried to give you here an outline of the Harvester Company's eighteen years' experience in its employee-employer relationships. The company's policy in this respect has brought industrial peace and mutual understanding and confidence. We believe that it has promoted the welfare of the employee on the one hand, and the well-being of the company on the other.

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# INSURANCE OF EMPLOYMENT

By  
SIR JAMES WOODS

From the press we learn that another trade treaty is under negotiation which will again revise Canadian custom rates with the United Kingdom and the United States.

With a life-time spent in the industrial life of Canada, I desire to express certain views as to the country's tariff relations and economy; views that may be worthwhile if for no other reason than that several years of retirement from active direction of industry should have given me perspective. What I have to say will naturally be influenced by the course of the textiles which have been my principal industrial concern.

## 1.

One of the striking features of the proposed trade pacts, is its creditor-debtor relationship. The United Kingdom and the United States are the world's two greatest creditor nations, while Canada, on a per caput basis, is one of the world's greatest debtor nations, in the sense of working with other peoples' capital.

I confess having been surprised by our foreign obligations when I read the survey of the foreign investments published by members of the Royal Institute of International Affairs in 1937. They amount to 127 pounds per head of population and are about the same amount for New Zealand and Australia.

I feel impelled to seek a reason for the fact that overseas food exporting countries are so heavily obligated for working capital, borrowed from other countries. How is it, I ask, that the countries—new and old—who live by exporting foodstuffs, are invariably debtor nations, while the creditor nations are, without exception, industrial nations? In the proposed trade treaties, Canada must be given the right to pay its current bills for goods with goods, and to pay its debt charges with goods. If we cannot pay with goods, then what will happen some day is not a matter of speculation.

A second striking feature of the proposed agreements, is the disparity of populations. These days when a country goes bargaining for markets, its strength does not lie alone in what it has to sell; it lies mainly in how much it can buy. Thus, bargaining strength goes with population and the industrial countries alone possess a large consumer volume of buying power.

In this connection, we must face the fact that in Canada grain growing under modern mechanization, is incompatible with dense population. The following extract from a survey by the Dominion Bureau of Statistics in 1934, confirms this view:

	Size of Farms and Population	
	Acres per Farm	Persons per Farm
Quebec	153	8.42
Ontario	153	5.01

## COST AND MANAGEMENT

Manitoba .....	381	6.0
Saskatchewan .....	604	5.74
Alberta .....	546	5.32

With our population of only 11,000,000 compared with the 43,000,000 of the United Kingdom and 130,000,000 of the United States, it is clear that to make up for disparity we are in danger of being forced to make greater concessions than would otherwise be the case. These concessions must fall on industry. The consequences of thus surrendering part of our production will be taken up later.

The bargaining position in Canada with respect to the United Kingdom is considerably weakened by the fact that the United Kingdom cannot consume all the wheat produced within the Empire. The British have wheat growers of their own to protect and, in addition, they have investments in other agricultural countries, notably the Argentine, and have to take wheat in payment of debt or run the risk of not being paid at all.

Further, they have no urgent requirements for some of our other farm products as they have sources of similar supply within their own islands and nearby Scandinavian countries.

We, on the other hand, with but 11,000,000 people, are able to absorb only a small portion of the industrial goods produced by the United Kingdom. While this small portion would not benefit the United Kingdom to any important extent, it would be the cause of a breakdown in the Canadian textile industry.

In all intra-empire treaty negotiations, there has been a marked desire on the part of Great Britain to treat the other parts of the Empire with fairness and consideration, but the thought comes back—what has Canada to concede in this new treaty other than a lowering of tariff on manufactured goods? In our present British preference, we admit free of duty, linens, china, cutlery, none of which is made in Canada. What other lines can be added to the list without injuring Canadian industry? To find employment for workers in Great Britain at the expense of Canadian workers will not advance the cause of the Empire.

The Ottawa agreements were based to some extent on family sentiment; but when Canada bargains with the United States, it will be on plain business grounds. Sentiment will play no part.

Our products from the farm, forest, sea and mine, have never been very welcome in the United States, for almost invariably they compete with similar American products.

If the doors of the United States are to be opened wider to these products of ours, the natural conclusion is that our doors must be opened still wider to factory products. It is difficult for anyone in my position to weigh all the fundamentals involved but we Canadians ought to go on expanding our industrial life, for I believe the development of industry is the key to a creditor position.

Another shadow in the background is the trend of the United States to a state-controlled economy. One can hardly forget that in the thick of the financial crisis the American government instructed its delegation to the World Monetary and Economic Conference to say:

## COST AND MANAGEMENT

"The re-valuation of the dollar in terms of American commodities is an end from which the government and the people of the United States cannot be diverted. We wish to make this perfectly clear: We are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate concern."

The gravity of that statement of the past should lend caution to our proposed actions governing the future. Looking back, it is now quite evident that much of the depression's obstinacy in the face of remedial measures was due to the lack of co-ordination of monetary policy with foreign trade.

### 2.

The depression of 1930 broke first over the food exporting countries. By the spring of 1932 the Director of the International Labour Office estimated twenty to twenty-five million unemployed. The Economic Intelligence Service of the League of Nations put it not too dramatically when it said:

\* "Behind the percentages and index numbers lie the grim realities of disheartened men tramping in a hopeless search for work, boys and girls fresh with enthusiasm and vitality finding bitterly that the world seemed to have no use for their services, women planning desperately for their families of unemployed, and debt always before them."

\* *World Economic Survey 1934-35*, p. 145.

From that dismal situation, we should never forget the means by which the agricultural countries, almost without exception, partially emerged. It is on record that when the great cereal countries could no longer make livings by feeding other people, they had to begin clothing themselves, and they were extremely successful in doing so.

Textiles were the first of all industry to show world recovery. Between May and October, 1932, the International Index showed "a remarkable advance of some 15%." The League of Nations, recording the World Production and Prices for 1932, observed:

\* "In almost all countries there was a considerable revival in textile industry during the second half of 1932—indeed the industrial recovery shown by the general indices was principally due to the textile trades."

\* *World Production and Prices 1925-32*, p. 74.

That is perhaps not surprising. Textiles are essentials and their replacement purchases cannot too long be put off, even in depression, and even by a people in most straightened circumstances. The very nature of their continued necessity gives a stabilizing effect to a country's industrial and employment life. If, during this period, our industry in Canada had not had sufficient protection, it would have increased by tens of thousands the army of unemployed.

### 3.

Canada, with a normal development of the sewing trades in the early stages, lagged for years behind other countries in the employment of primary textiles.

## INSURANCE OF EMPLOYMENT

Within my memory, we have governmentally changed our national mind three times, completely, with respect to fostering this industry. One Parliament enacted tariff legislation for a proper protected growth, only to have it repealed by a succeeding Parliament, and vice versa.

When the depression came in 1930, Canada was probably more dependent upon other people for its textiles than any other country of equal importance. It was only then, when we were facing mounting mass unemployment and its social consequences, that we realized our neglect and once more nationally decided to protect our industry.

The social consequences of the depression have been brought into high relief by the present insistent demands for social security. I firmly believe that social security in Canada can only come through continuity of employment, based upon a stability of tariff legislation.

I am keenly conscious of the controversy in the word "Tariff," but surely, while we may disagree as to precise levels, we can agree on stability within economically sound limits. And we have not had it.

The reconstruction period after the war was characterized by tariff instability the world over. It was then that the practice of making tariff rates by trade pacts was recommended—for the express purpose of securing stability. And we have not had it. May I remind you of the dates of our major tariff revisions by treaty during the past six years:

The United Kingdom, August 20th, 1932.

France, June 10th, 1933, and further amended by exchange of Notes, March 20th, 1936.

The United States, November 15th, 1935.

Japan, by an Exchange of Notes, December, 1935.

The United Kingdom, February 23rd, 1937.

The United States, January, 1936.

And now it is proposed to enter into still another Treaty with the United Kingdom and the United States.

So far from fulfilling its declared purpose of stabilizing trade relations, the trade pact has become an instrument of instability. Whether in textiles or in other fields, I am sure that Canada's social security can be best reached when tariff schedules give continued steadiness to the nation's economic life.

There may be compelling reasons why Canada should enter into a new trade treaty. Governments have heavy and varied responsibilities to all sections of this country. I have no disposition to condemn a treaty before I know what it is. But, I would urge that Canadian industry be given an opportunity of presenting its views on any proposed tariff changes.

Notwithstanding the knowledge of the government's tariff advisers, I suggest that carefully selected executives of Canadian industries be asked to assist the government in reaching a fair and equitable course towards any trade relationship that Canada's economic position requires.

I cannot speak with authority for a wide range of industry, but I can promise sincere co-operation from the Textile Industry, if given an opportunity to discuss the situation in a spirit of frankness.

## COST AND MANAGEMENT

### 4.

Contrary to an opinion quite commonly expressed, the customs tariff does not protect Canadian-owned capital. Immigration laws may protect labour from invasion but, in a state of free enterprise, there is no law to prevent foreign capital crossing our border.

Of the working capital in Canada, 37½% is owned abroad, and much of it is in hands long established in industry.

The charge is made that several textile concerns have attained large-scale production by re-investing profits; and the inference drawn that excessive profits were made under the shelter of the tariff. But quite plainly, one must look beyond the customs tariff when profits exceed the normal rate. The earnings of industrial enterprises are known the world over and the English and American textile manufacturers who carried machinery to the Orient are not likely to have overlooked industrial opportunities in Canada.

There are isolated examples of large profits, but, by and large, the industry's profit has been of insufficient proportions to attract any considerable foreign capital into competition in this country. Certainly I can say that the Woollen and Knit Goods section of the Textile Industry, is a low profit one, by reason of its keen internal competition.

It is sometimes said that textile wages are relatively low. However, it must not be forgotten that women in all industry are generally paid on lower wage levels than men, even for the same operation; and the textile industry employs more women than any other major Canadian industry—and more young people.

When employment has become a social necessity the ratio of the numbers employed to the gross value of production becomes of extreme importance. In this connection, I cite the figures of the five major groups of our industrial life as provided by the census returns:

### MANUFACTURERS

#### By Industrial Groups

1935

	Gross Value of Production	Employees
Animal Products	\$351,643,587	60,124
Vegetable Products	509,882,142	79,285
Iron Products	390,228,929	95,426
Textiles and Products	357,106,277	120,699
Wood and Paper Products	441,160,387	123,724

The provinces, and even the nation, may impose wage codes on industry and legislate standards of living, but without corresponding legislative protection, the codes are ineffectvie. The price of an unprotected high wage rate is unemployment. For years, the United Kingdom tried and, for a while, seemed to have succeeded in maintaining wage-standards in a market open to the world; but eventually the United Kingdom was forced to choose between its "code" and "free trade," and after years of searching examination chose "protection."

## INSURANCE OF EMPLOYMENT

Canada is a high-wage country in the Textile World. I make that statement on the authority of the International Labour Office which, in a study of wages the world over, classifies the countries in four groups: "In the first group are the countries of Asia—China, Japan and India—where hourly wages in gold in 1935-36 were less than 20 Swiss gold centimes. In a second group are five countries of Central and Eastern Europe—Austria, Hungary, Italy, Poland and Czechoslovakia—where hourly rates were approximately between 35 and 45 gold centimes. In a third group are countries such as Sweden, Germany and Great Britain, in which hourly rates were between 55 and 75 gold centimes. The fourth is formed by the United States and Canada, where wages were above 1 gold franc per hour."

Wages are further concerned with another factor, little understood, and seldom considered. Since the gross wage-bill must come out of the value of productive effort, it follows that labour can be well paid only when it is supplied with efficient machinery (and the historic controversy of labour versus capital is never settled just because it is largely a false issue.) Generalizations are invariably dangerous but, with a fairly wide knowledge of world conditions, I venture to say that:

- (a) While the Canadian textile industry is relatively small, it is efficient.
- (b) That very efficiency, coupled with our relatively high wages, was obtained largely by the practice of re-investing profits that might otherwise have been distributed by way of dividends. I consider that practice, from almost every point of view, highly commendable and sound.

It seems unnecessary to observe that the industrialist's problem of the past seven or eight years has been one of adjustment of costs to a lower level of the consumer's buying power. While all the world faced that problem, its solution was particularly difficult in Canada where the national income was so largely dependent upon the depressed foodstuffs; and particularly on wheat, with misfortunes notoriously catastrophic.

At the first crack of the depression, the building trades had fallen into idleness and the only outlet for employment in producers' goods lay in more public works, with which we appeared to be already well supplied. Foodstuffs were piling up in storage. Heavy goods were without demand save at state-expenditure. The doors of the textile factories had to be once again opened.

The textile industry faced that situation with a request for an upward revision of the tariff rates on the promise that, if assigned a greater share of the market, it would not only absorb much idle labour but it would, as well, bring about a substantial reduction in the price of consumers' goods.

There could be no doubt about the desirability of putting people to work at that time. For young people it was imperative. That the second objective—a reduction in prices—could be achieved by raising the tariff was widely looked upon with scepticism. And naturally so, for the first impact of a higher tariff is usually a higher price for the protected article. But not necessarily so.

However, for the moment, let us lay aside all speculations of what might have been and look for the actual results of the higher tariffs on

## COST AND MANAGEMENT

the textiles. In 1934, the economists of the Bureau of Statistics conducted a survey of Farm Expenditures in Alberta and in their review gave the following finding:

"Clothing and fuel purchases have been reduced relatively little when price changes are taken into consideration. Clothing prices were approximately 30 per cent. lower in 1934 than in the years just prior to 1930, and fuel prices averaged at least 10 per cent. lower. These groups represent necessities for which purchases cannot be long deferred."

I consider that the industry lived fully up to its national obligations.

### 5.

That section of the industry with which I have been associated, woolens and knit goods, never responded as many another industry, to the modern economies of large-scale production in a few huge units. As a result, you will find woollen mills and knitting factories in 146 different Canadian municipalities with most of the provinces represented. One looks at the list to realize that the industry—almost alone—has carried on in the villages and small towns.

Personally, I place high value upon that distribution of small units over the countryside; it makes for a closer co-operation of farm and factory in support of national life; not merely in an economic sense, but, as well, it makes for a more diversified and happier social life.

But one should not forget that the spread of factories over the countryside entails responsibilities. Many a village is almost wholly dependent on its textile factory for a distribution of income. It is vital to these communities that this income should remain uninterrupted.

The turning of the food exporting countries, in 1932, to a primary textile development, was not just a means of tiding over a temporary distress. Regardless of the revival of the prices of foodstuffs—by devaluation of currency, crop failure, or whatever the cause—Canada has to widen its industrial employment. The advent of farm machines has released labour from the land that must find employment in industry. Living as we are in an age of statistics, we often fail to read the lessons they teach. But, there's one figure in the last census that commands our gravest consideration, as we proceed to negotiate changes in our economic life. It is this one:

"Of the 729,623 farms in Canada, only 281,044 or 38.6 per cent. employed hired help."

In all our political arithmetic you will find no statement carrying greater significance for the future of this country. And remember: the census was taken under agricultural conditions that may be regarded as fairly normal. The condition revealed in the figures I have just taken from the nation's bookkeeping extends throughout the civilized world; it is a phase of the great Agrarian Revolution.

Reviewing that very phase of the world's condition, the Economic Committee of the League of Nations reports:

\* "True, the moment is in sight when, thanks to the increasing extension of technical progress, half the agricultural population of any given country will be amply sufficient to supply a demand which, unlike the de-

## GRAPHIC CHARTS IN COST WORK

mand for industrial products, can after all only increase at the same rate as the population itself."

### 6.

I would not be accused of exaggerating the importance of industry and under-stating the importance of agriculture. Agriculture will always have an important place in the national life of Canada; the world will call upon the West for Number 1 Manitoba Hard Wheat so long as it preserves its good taste for wholesome bread.

The development of Canada does not depend upon a choice between the field or the factory; whatever the lot of other people, Canadians out of the richness of their natural resources may have both the field and the factory. Providence has been unusually generous to us; it has supplied us with most of the resources out of which to create the goods of life. With a well-considered national policy, we may yet fulfill the boast that the Twentieth Century belongs to Canada.

\* Agricultural Protectionism, p. 7.

In considering well the policy we need for a greater and better national life, may I just add that, while I yield to no one in my desire to live on god economic terms with my neighbours, I have a fear of living too closely under the shadow of the Great American Republic. The experience through which we are just now passing illustrates what I have in mind. In the final quarter of 1937, we were visited by a recession in business; and it was commonly said it came through "conditions over which we had no control." Beyond all doubt that recession of trade was imported across our Southern boundary.

The policy of the American people is the business of the American people; but in determining Canadian policy, let us recall that only a country of great capital resources can survive under a succession of booms and slumps; and Canada is a debtor country.

Our people cry out for social security; wage-earners demand unemployment insurance; let us give them something still better—the insurance of employment.

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## GRAPHIC CHARTS IN COST WORK

By

T. A. BLAIR

Canadian Marconi Co. Ltd.

Address to Montreal Chapter, on Students' Night, Feb. 25th

Graphic Charts are of great importance in aiding the Cost Accountant to place before Management vividly those facts which are most essential towards the operating of an organization during these times.

To-day, our business technique presents many new aspects, and Management demands that statistical information be brought to their attention regularly. Most heads of organizations are alike in one respect. They are constantly disturbed by the mass of details which must be perused to arrive

## COST AND MANAGEMENT

at a clear understanding of facts as presented in statement form.

Through the medium of graphic charts, we are in a position to place before the Management in a pictorial manner, valuable information which is sometimes overlooked.

Graphic charts should, therefore, be an important factor in cost accounting.

The foremen and employees of departments are not chiefly concerned in costs, their work is to produce, and a pictorial record of their performance is important. The Cost Department, apart from having their particular department well in hand, must branch out from there and familiarize themselves with the work of all departments of the plant. With this knowledge, they are in a position to point out the factors which should be considered in deciding upon policies for future guidance. It is said: "Cost Accounting constantly looks beyond the present and attempts to predict the future in the light of the past." May we add here: "With the help of Graphic Charts."

Indirect expense has a tendency to become a burden, to become out of control, and when operating statements are submitted the question is, why? The Cost Department can overcome this embarrassment with the use of graphs. Budgets may be planned and shown in graphic form to cover such accounts as—Stores Maintenance, Shipping Room Maintenance, Truck Expense, Machinery Repairs, Tool Repairs and Purchase, Equipment Repairs, General Supplies, etc., etc. These graphs are placed in the hands of department foremen or those responsible for the expense involved in each department of the plant. For accounting purposes cost records are compiled daily and when expenses become in danger of exceeding the budget the account in question is taken apart, major items recorded, the result being that when operating statements are submitted each month, reasons are shown on the graph in detail, thereby eliminating a loss of time which would be necessary in checking back over paper work some days or weeks old.

Further uses to which Graphic Charts may be put are:

- A. To Control Production.
- B. To exhibit the efficiency of workmen, machines and departments.
- C. To Control purchasing, advertising and sales.
- D. To Compare costs, production, sales, gross and net profits.

The curve chart, a line connecting various points on a chart, constructed on ruled cross section paper, is the most valuable for nearly all purposes of cost accounting, because it is the most readily understood.

In constructing graphic charts it is well to keep in mind simplicity and conciseness, as much as possible.

## Some Aspects of Printers' Costs

Precis of a Lecture delivered by  
D. H. PICKERING, A.C.A.A., A.I.C.A.

Before the Australasian Institute of Cost Accountants (S. A. Branch)  
and S. A. Master Printers' Association

A great deal of attention is directed towards specialized accounting technique to-day, brought about by the large-scale development in industry. It is interesting to note, however, that printers were early in the field in endeavouring to standardize the methods of cost finding among the individual members of their profession. In 1911 the Federation of Master Printers in England set up a special committee to compile a system of costing for uniform use in the printing industry. Earlier than this, the American printers had also formulated a standard system, and to this day both systems are largely used.

Amongst factories generally there are found three types of businesses, namely—those where a complete system operates, those which have a partial system, and those who have no system whatsoever. Whilst quotes given by printers are estimates only, some system should be instituted whereby the accuracy of the estimates can be proved, otherwise errors are perpetuated. A printer without a system makes no attempt to find out whether his estimates are in accordance with the actual cost or not, and he waits until the end of the year before ascertaining how much profit has been made, and even at the yearly balancing he has quite a problem in valuing the work in process. Where a partial system exists, some attempt is made to keep job cost records, but such records are not carried far enough by linking them with the financial records, and are thus always liable to error.

The advantages which a complete costing system gives to the management are:

Knowledge of profitable and unprofitable jobs.

Detection and prevention of waste in the use of materials.

Control of labour efficiency.

Basis for more accurate estimating.

Monthly profit or loss result.

In instituting a system, it is desirable that—

Detail work be reduced to a minimum, so as not to make the system too costly or cumbersome.

The records to be made by the workers should be as simple as possible, and involve the minimum amount of clerical work.

The cost records should be worked in conjunction with the financial records, the latter controlling or proving the accuracy of the cost entries.

The elements of cost comprise three items, namely, labour, material and expense, and a costing system aims to charge against each job its correct proportion of each element of cost. It is fairly simple to ascertain the cost of material and the amount of time involved, but the most difficult problem is to find out what expenses are chargeable to the job, and

## COST AND MANAGEMENT

also the amount of such expenses. In the printing industry, it appears to be the general practice to use a productive hour rate, whereby labour and expenses are charged by means of an hourly rate. Where the process is by hand, the productive man-hour is the unit, and where the machine is the producing factor the productive machine-hour is the unit. Whatever rate is used, some system should be set up which will show the results of the rates used, and this involves the compilation of departmental cost accounts. Each department is credited with the value of its output, based on the productive hours multiplied by the hourly rates, and is debited with the cost of all labour and all expenses applicable to the particular department. Any difference arising out of the credit for output, on the one hand, and the debit for expenses on the other, will indicate the sufficiency or otherwise of the rates used. It should be noted, however, that in fixing the rate in the first instance, the monthly productive hours are estimated, and if the productive hours fall short of the estimate there will be a deficiency, due not to an inadequate rate, but to insufficient business. The setting up of departmental cost accounts requires the strict apportionment over departments of expenses plus a portion of the general overhead as assessed on a percentage basis. The department with the biggest expense bears the greatest portion of the overhead.

In connection with material, the perpetual inventory method of control does not seem to be used very extensively, but adequate storing arrangements and proper routine in connection with the receipt, recording and issue of material are necessary in order to avoid losses. The cost of handling material is recovered by means of a fixed percentage added to material cost, and this involves another small departmental cost account to ascertain whether the percentage added is sufficient. The expenses of buying, receiving, storing, issuing and delivering would be debited to handling account, and the amounts recovered by means of the percentage charge to jobs would be credited to this account.

## SITUATIONS WANTED

Young man, at present engaged, desires position of cost accountant with opportunity for advancement in Toronto or vicinity. Has had several years' experience and is at present studying for Society examinations. Apply Box 26, "Cost and Management."

Young man, Cost Accountant, at present engaged, is desirous of change to position which offers opportunity for advancement. Good experience in metal trades costing as well as well versed in accounting procedure. Apply Box 27, "Cost and Management."

Cost Accountant, with several years' experience in Production Control and Management, is looking for situation where proven talents will be appreciated. Particularly well versed in the textile trade and would go anywhere to obtain good position. Apply Box 28, "Cost and Management."

Young man with Collegiate Institute, Normal School and University education, and with experience in teaching, general and public accounting, in addition to cost accounting, is at present disengaged and seeks permanent position with sound organization. Apply, Box 18, "Cost and Management."

Accountant, with many years' experience as Accountant, Office Manager, Cost Accountant and Auditor, seeks position vicinity of Toronto or Western Ontario. Experienced in Time study work with numerous systems, and fully capable of installing cost or accounting systems. Position sought is one in which this experience can be used to advantage with well organized and sound company. Apply,

## ***Closing Meetings***

The various Chapters are nearing the end of the season, which has proved just about the best ever.

Montreal will hold its annual general meeting on May 6th, while Toronto and Hamilton will close with a social affair, the Toronto members, with their wives and lady friends, gathering at the Club Esquire on April 21st for a rather elaborate affair, while the Hamilton members, wives and friends will hold a social evening at the Cosmos Imperial Mills' social rooms on April 29th.

The Kitchener Chapter will close its activities on May 5th, when the speaker will be Mr. W. Perkins, Steel Company of Canada, Hamilton, and his subject will be "Welfare in Industry."

London will hold its final meeting on May 3rd, with Mr. R. Presgrave, York Knitting Mills Ltd., Toronto, speaking on "The Control of Indirect Labour," and the Niagara Chapter will wind up on May 6th, when Mr. L. H. Angstadt, of Buffalo, will speak on "What Management Expects from the Accountant." In the case of these three latter Chapters, officers will be elected at these closing meetings.

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## ***New Members***

### **Niagara Peninsula.**

- F. C. Douglas, English Electric Co. Ltd., St. Catharines.
- I. J. Young, Maple Leaf Milling Co. Ltd., Port Colborne.
- W. G. Lloyd, Welland Vale Mfg. Co. Ltd., St. Catharines.
- L. C. M. Palmer, B.A., Thompson Products Ltd., St. Catharines.
- J. Hall, Empire Cotton Mills Ltd., Welland.
- C. G. Kilty, C.A., Commonwealth Electric Corp. Ltd., Welland.

### **London.**

- S. C. Ferguson, C.A., John Labatt Ltd., London.
- G. A. Dent, La France Textiles Ltd., Woodstock.

### **Hamilton.**

- J. Kitchen, National Hosiery Co. Ltd., Hamilton.
- A. Gibson, Remington Rand Co. Ltd., Hamilton.

### **Toronto.**

- J. S. Roberts, Trane Co. of Canada Ltd., Toronto.

### **Montreal.**

- J. D. Webb, Jenkins' Bros. Ltd., Montreal.



George H. Houston, of Toronto, a Director and former President of the Society, and who has always taken a keen interest in its welfare.

